

VII Year-End Closing - New Year Activities

This chapter describes four additional activities that affect year-end close (YEC) and new year open:

- ✧ Reversing entries that must be entered in the new year.
- ✧ Transactions departments use in the new year to liquidate encumbrances, accounts payables and "Due To's" established in prior years.
- ✧ How prior year expenditures are cost-allocated in the new year.
- ✧ "Final thoughts" on how to begin preparing for the next year-end process.

REVERSING ENTRIES

Some year-end adjusting entries (described in Chapter II) and reclassification entries (described in Chapters III and V) must be reversed in the new year to properly reflect account balances and assist in new year processing. This section describes the entries required to post reversals to those accounts when the automatic reversal process is not used.

Manual Reversal of Adjusting Entries

If any adjusting entries requiring reversal were not coded and input using automatic reversal batch identification and FM 13, manual reversal is required. Refer to Chapter II, Year-End Adjusting Entries, to determine which of the standard adjusting entries need to be reversed. If a document in the Document File was inadvertently over-liquidated, the assistance of CALSTARS staff may be required.

Manual Reversal of Year-End Recording of PFA

Adjusting entries were made to record PFAs pending as "Due To" or "Due From". If the automatic reversal process was not used, reverse these entries in the new year (refer to Chapter III, section *Record Year-End PFA*) and post SCO PFA Journal Entries (JEs) using TCs 351 or 352.

Manual Reversal of Reclassifying Encumbrances (Reported as Accounts Payable)

Adjusting entries using TCs 517 and 519 may have been made at year-end to reclassify encumbrances (which the system treated as General Ledger (GL) 3010-Accounts Payable) to the various GL 3100's (Due To's). If the automatic reversal process was not used, reverse these adjusting entries in the new year, in FM 01, if available. Refer to Chapter III section *Reclassify Encumbrances Reported as Accounts Payable*.

Manual Reversal of GL's 1390 and 1600 Subsidiary

Subsidiaries were added to GL accounts 1390 and 1600 to satisfy SCO reporting requirements. If the automatic reversal process was not used, reverse these entries in the new year. Refer to Chapter III, section *Enter Subsidiaries for GL 1390 and GL 1600*.

MOVE ORF ADVANCE

After the Office Revolving Fund A-2 adjusting entry reversals are made, the full amount of the Office Revolving Fund Advance is reflected on the Appropriation File reports in the prior fiscal year. To move the advance from the prior fiscal year to the current fiscal year, enter TC 745R in the prior year and TC 745 in the current year. This entry should be made by all departments that have an Office Revolving Fund regardless of whether they use Fund 0998 to record ORF activities. The entry is made based on the receipt of the SCO Journal Entry shown on the SCO Agency Reconciliation Report.

TC 508 may be required to reverse TC 520 when a TC 520 was entered as part of the A-2 adjusting entry. Refer to Chapter II, section *Entry A-2, Adjust Revolving Fund Cash Account* for additional instructions.

PRIOR FISCAL YEAR PAYMENTS IN THE NEW YEAR

Departments may schedule payments in the new year for active prior year appropriations before starting either the YEC or YEO process. Some of the transactions commonly used to make payments also liquidate encumbrances. CALSTARS calculates the correct balances for documents regardless of whether the department has executed the automated close process. The Modifier **P**, **F** or **Blank** may be used for all encumbrances regardless of Funding Fiscal Year (FFY). Use the Online Document Shadow File to determine document balances until the YEO process is complete.

New Year Payments Against Prior Year Continuing Appropriation Documents

Refer to the Chapter 1 section *New Year Payments Against Continuing Appropriations Prior To YEC* for detailed instructions.

Payables (GLs 3010, 3110, 3210, 3220, and 3290)

Refer to Chapter II section *Entry A-8: Accrual of Expenditures*, for instructions on liquidating payables in the new year.

ALLOCATION OF PRIOR FISCAL YEAR EXPENDITURES IN THE NEW YEAR

At any time during the new year, expenditure transactions may be charged to available prior FFY(s) appropriations. However, expenditures charged to indirect PCAs or PCAs that use the Clearing Account for disbursement, must be cost allocated and/or fund split. As discussed in the following sections, the allocation method for prior FFY's expenditures is different than the allocation method for current FFY expenditures.

NOTE: Running prior year FM 13 cost allocation processes causes the system to blank the Cost Allocation Run Type Indicator on the OC Table. The appropriate Run Type needs to be entered when running cost allocation in the new year.

Allocations using Actuals

Charges for prior FFY expenditures continue to be allocated using the Cost Allocation (CA) Tables established for that particular FFY. However, when the CA process builds the distribution base (i.e., the base on which the percentages are calculated to allocate costs), the system uses cumulative-to-date activity. This allocation basis is more equitable than using current month activity only since prior FFY activity in the new year is likely to be sporadic.

Allocations using Standards

The Standard Costing method annualizes costs throughout the fiscal year. After the year is complete, this methodology is no longer appropriate since all of the costs should have been captured for that year.

To keep those departments who use the Standard Costing method from making extensive table maintenance changes to the CA Table, CALSTARS automatically uses the Actual Cost method and the Calculated Percentage Distribution for prior year expenditures incurred during the current year (Distribution Type = 5).

Variance Allocation Procedures

The cost allocation process allocates variances accumulated in indirect PCAs. Several activities must occur prior to starting this variance allocation process. First, the variance run allocates variances collected in indirect PCAs that have Variance Allocation Indicator 2 in the CA Table. Before starting the variance allocation process (using OC Table, Run Type = V) review the PCA Table coding for PCA Type = 6 on each PCA Table record needed for allocating variance expenditures.

Second, the variance run allocates the cumulative variance balance that is in each PCA. If costs are accumulated in one PCA and recovered in another PCA, the system will not combine the two to compute the variance.

The variance allocation is performed using CA Table Distribution Type = 5 based on computed percentage. When determining the distribution base, year-to-date activity is used for prior year expenditures instead of monthly activity. The normal sequence of cost allocation events should be: (1) perform normal monthly cost allocation; (2) perform variance, if appropriate (usually done quarterly only); and, (3) perform fund split.

PREPARATION FOR THE NEXT YEAR-END

Once a department has completed YEO, their monthly accounting processes are mostly routine until the start of the next Year-End Close (YEC) cycle. Before getting into the normal monthly routine, the following activities should be reviewed and timely action taken to make the next year-end closing process easier and more efficient.

Start Reconciliations

Departments must reconcile each SCO account with their records for each of the twelve accounting periods. This includes the Federal Fund '44' accounts and certain GL accounts (3400, 3500, etc.), if present. Many departments do not have sufficient staff to do the year-end activities, pay ongoing claims and keep current on reconciliations. Reconciliations are oftentimes deferred. After YEO, an extra effort should be made to bring reconciliations current and resolve all reconciling and Report No. 3 items. Once current, assignments should be made to keep them current for the rest of the fiscal year.

IMPORTANT: Of all the activities that are necessary for a successful year-end closing, one of the most important is to have all reconciliations up to date and correcting items processed in a timely manner.

Review Current Year Reports and Tables

Review the current year reports and tables for the following:

- ✧ Is the organizational structure correct?
- ✧ Are the department titles spelled correctly?
- ✧ Does Cost Allocation/Fund Split work properly for your department?
- ✧ Are the correct reports being requested at the proper levels and distributed to the appropriate staff?
- ✧ Are reports being requested in the appropriate media?
- ✧ Is a copy of the microfiche being reviewed before it is archived in a safe place?

Set Reversion Indicators for the next CFY022 Process

AS Table Reversion Indicators may be set any time after a department has completed the YEO processes. Departments should consider setting these indicators in the Fall rather than waiting until the CFY022 Report is produced in early April.

Delete Unneeded Table Records

Review all table records and delete excess or obsolete table records as appropriate. Departments may print all or individual FFYs of their tables at this time to assist in the review. The print of the entire table or for an individual FFY can be requested through Function **P** of each specific table or **P** in the F Column from Command **I.80**-FFY Maintenance Screen. All of the entries for a table older than the current and two prior fiscal years may be deleted with Function **X** in the F Column on Command **I.80**-FFY maintenance Screen. Some AS and PCA Tables used by the Federal Trust Fund may be needed for 5 years. Departments should refer to CPM Volume 2 for additional information regarding table maintenance.

CAUTION: Table records looked up by Document File records should not be deleted until the Document File balance is liquidated.

Begin the Planning Process for Changes in Program/Organization Structure

The ideal time to make program and organization changes is on July 1. The period after completing YEO is the best time to begin thinking about changes for the next fiscal year. Table entry forms for the new year may be completed, reviewed, and set aside until later in the fiscal year. Some departments save time by creating external files and submitting them for system processing.

Plan for Changes in Cost Allocation

Like changes in program and organization structure, cost allocation methodology changes are best accomplished at the change of fiscal year. It takes a period of prior planning to properly design, secure approval, code and document the changes. Many of these functions are outside the control of the accounting office. For this reason, cost allocation changes should be started early in the new year for implementation at the beginning of the following year.

Plan for Next Year's Training

While the year-end process is still in everyone's mind, the accounting manager should meet with the accounting staff to identify gaps in training and respond in a timely manner. CALSTARS offers classes on various subjects in the Fall and the early Spring. Staff should be registered for classes as early as possible so they may be fully trained by year-end.

Plan Next Year's Year-End Closing Staffing Assignments

In many departments, the chief accounting officer and key staff must work extensive overtime during the year-end closing period. Delegating some of the work to subordinate staff is one way to reduce this burden. Review assignments and the use of overtime now. There may be more efficient methods and uses of existing staff. Such an analysis may also point to the need for additional staff, more training, or a change in the staff classification levels.

Look at the actual dates that activities were completed as compared to the planned schedule. This review helps to assign more realistic time frames for the next year-end closing and may point to gaps in training or staffing.

Comments on CALSTARS Year-End Procedures/Processes

Suggestions for improving the year-end process in CALSTARS are always welcome. Please complete the CALSTARS Suggestion Form (CALSTARS 106) to provide any comments/suggestions on the content of this volume, the year-end training classes, system year-end processes or any other CALSTARS related comments or suggestions. The CALSTARS 106 form is available on the Internet at <http://www.dof.ca.gov/accounting/calstars/forms/>.